

WERNER ENTERPRISES INC

FORM 10-Q (Quarterly Report)

Filed 05/15/01 for the Period Ending 03/31/01

Address	14507 FRONTIER ROAD OMAHA, NE 68138
Telephone	4028956640
CIK	0000793074
Symbol	WERN
SIC Code	4213 - Trucking, Except Local
Industry	Trucking
Sector	Transportation
Fiscal Year	12/31

WERNER ENTERPRISES INC

FORM 10-Q (Quarterly Report)

Filed 5/15/2001 For Period Ending 3/31/2001

Address	14507 FRONTIER ROAD P O BOX 45308 OMAHA, Nebraska 68145
Telephone	402-895-6640
CIK	0000793074
Industry	Trucking
Sector	Transportation
Fiscal Year	12/31

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

For the quarter ended Commission file number
March 31, 2001 0-14690

WERNER ENTERPRISES, INC.

(Exact name of registrant as specified in its charter)

NEBRASKA
(State or other jurisdiction of
incorporation or organization)

47-0648386
(I.R.S. Employer Identification No.)

**14507 FRONTIER ROAD
POST OFFICE BOX 45308**
OMAHA, NEBRASKA 68145-0308 (402) 895-6640
(Address of principal (Zip Code) (Registrant's telephone number)
executive offices)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES ☒ NO ☐

As of April 30, 2001, 47,161,991 shares of the registrant's common stock, par value \$.01 per share, were outstanding.

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PART I

FINANCIAL INFORMATION

Item 1. Financial Statements.

The interim consolidated financial statements contained herein reflect all adjustments which, in the opinion of management, are necessary for a fair statement of the financial condition and results of operations for the periods presented. They have been prepared in accordance with the instructions to Form 10-Q and do not include all the information and footnotes required by generally accepted accounting principles for complete financial statements.

Operating results for the three-month period ended March 31, 2001, are not necessarily indicative of the results that may be expected for the year ending December 31, 2001. In the opinion of management, the information set forth in the accompanying consolidated condensed balance sheets is fairly stated in all material respects in relation to the consolidated balance sheets from which it has been derived.

These interim consolidated financial statements should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2000.

WERNER ENTERPRISES, INC.
CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share amounts)	Three Months Ended March 31	
	2001	2000
	(Unaudited)	
Operating revenues	\$304,577	\$291,379
Operating expenses:		
Salaries, wages and benefits	109,074	103,312
Fuel	35,064	31,209
Supplies and maintenance	26,944	25,312
Taxes and licenses	23,078	21,462
Insurance and claims	10,741	6,980
Depreciation	29,195	26,321
Rent and purchased transportation	50,272	57,027
Communications and utilities	3,743	3,686
Other	407	(2,465)
Total operating expenses	288,518	272,844
Operating income	16,059	18,535
Other expense (income):		
Interest expense	1,406	2,235
Interest income	(894)	(447)
Other	419	105
Total other expense	931	1,893
Income before income taxes	15,128	16,642
Income taxes	5,673	6,324
Net income	\$ 9,455	\$ 10,318
Average common shares outstanding	47,072	47,092
Basic earnings per share	\$.20	\$.22
Diluted shares outstanding	47,663	47,251
Diluted earnings per share	\$.20	\$.22
Dividends declared per share	\$.025	\$.025

WERNER ENTERPRISES, INC.
CONSOLIDATED CONDENSED BALANCE SHEETS

(In thousands)	March 31	December 31
	2001	2000
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 28,498	\$ 25,485
Accounts receivable, net	127,375	123,518
Receivable from unconsolidated affiliate	-	5,332
Other receivables	10,619	10,257
Prepaid taxes, licenses and permits	10,021	12,396
Other current assets	30,642	29,789

Total current assets	207,155	206,777

Property and equipment	1,041,567	1,021,679
Less - accumulated depreciation	333,395	313,881

Property and equipment, net	708,172	707,798

Notes receivable	4,341	4,420
Investment in unconsolidated affiliate	4,933	5,324
Other non-current assets	2,652	2,888

	\$ 927,253	\$ 927,207
	=====	
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 31,493	\$ 30,710
Insurance and claims accruals	35,716	36,057
Accrued payroll	15,454	12,746
Payable to unconsolidated affiliate	3,115	-
Other current liabilities	22,117	21,906

Total current liabilities	107,895	101,419

Long-term debt	60,000	105,000
Insurance, claims and other long-term accruals	34,301	32,301
Deferred income taxes	179,901	152,403
Stockholders' equity	545,156	536,084

	\$ 927,253	\$ 927,207
	=====	

WERNER ENTERPRISES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)	Three Months Ended March 31	
	2001	2000
	(Unaudited)	
Cash flows from operating activities:		
Net income	\$ 9,455	\$ 10,318
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	29,195	26,321
Deferred income taxes	27,498	2,580
Gain on disposal of property and equipment	(57)	(2,787)
Equity in loss of unconsolidated affiliate	391	-
Tax benefit from exercise of stock options	157	3
Other long-term assets	236	-
Insurance claims and other long-term accruals	2,000	-
Changes in certain working capital items:		
Accounts receivable, net	(3,857)	(3,522)
Prepaid expenses and other current assets	6,492	(2,748)
Accounts payable	783	(4,785)
Other current liabilities	5,684	6,208
Net cash provided by operating activities	77,977	31,588
Cash flows from investing activities:		
Additions to property and equipment	(40,199)	(32,563)
Proceeds from sales of property and equipment	10,562	25,306
Proceeds from collection of notes receivable	204	-
Net cash used in investing activities	(29,433)	(7,257)
Cash flows from financing activities:		
Repayments of short-term debt	-	(20,000)
Repayments of long-term debt	(45,000)	-
Dividends on common stock	(1,176)	(1,180)
Repurchases of common stock	-	(2,113)
Stock options exercised	645	3
Net cash used in financing activities	(45,531)	(23,290)
Net increase in cash and cash equivalents	3,013	1,041
Cash and cash equivalents, beginning of period	25,485	15,368
Cash and cash equivalents, end of period	\$ 28,498	\$ 16,409
Supplemental disclosures of cash flow information:		
Cash paid (received) during the period for:		
Interest	\$ 1,709	\$ 1,844
Income taxes	\$(22,480)	\$ 1,323
Supplemental schedule of non-cash investing activities:		
Notes receivable issued upon sale of revenue equipment	\$ 125	\$ 1,423

WERNER ENTERPRISES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Investment in Unconsolidated Affiliate

Effective June 30, 2000, the Company contributed its non-asset based logistics business to Transplace.com, LLC (TPC), in exchange for an equity interest in TPC of approximately 15%. TPC is a joint venture of six large transportation companies - Covenant Transport, Inc.; J. B. Hunt Transport Services, Inc.; M. S. Carriers, Inc.; Swift Transportation Co., Inc.; U. S. Xpress Enterprises, Inc.; and Werner Enterprises, Inc. Accordingly, the Company is accounting for its investment in TPC using the equity method. Management believes this method is appropriate because the Company has the ability to exercise significant influence over operating and financial policies of TPC through its representation on the TPC board of directors. At March 31, 2001, the investment in unconsolidated affiliate includes a \$5,000,000 investment in TPC less \$67,000, which represents the Company's 15% equity in the operations of unconsolidated affiliate.

(2) Long-Term Debt

Long-term debt consists of the following (in thousands):

	March 31 2001	December 31 2000
	-----	-----
Notes payable to banks under committed credit facilities	\$10,000	\$ 55,000
6.55% Series A Senior Notes, due November 2002	20,000	20,000
6.02% Series B Senior Notes, due November 2002	10,000	10,000
5.52% Series C Senior Notes, due December 2003	20,000	20,000
	-----	-----
Long-term debt	\$60,000	\$105,000
	=====	=====

The notes payable to banks under committed credit facilities bear variable interest (6.04% at March 31, 2001) based on the London Interbank Offered Rate (LIBOR) and mature in August 2002. The Company has an additional \$90 million of available long-term credit facilities with banks which bear variable interest based on LIBOR, on which no borrowings were outstanding at March 31, 2001.

(3) Commitments

As of March 31, 2001, the Company has commitments for net capital expenditures of approximately \$42.6 million.

(4) Accounting Standards

Effective January 1, 2001, the Company adopted Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133), which was amended by SFAS No. 138. SFAS 133, effective for all fiscal quarters of fiscal years beginning after June 15, 2000, establishes standards for reporting and display of derivative instruments and for hedging activities. Management has determined that

adoption of these two statements did not have any effect on the results of operations or financial position during the first quarter of 2001.

In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" ("SAB 101"). SAB 101 summarizes certain of the SEC staff's views in applying generally accepted accounting principles to revenue recognition in financial statements and affects a broad range of industries. SAB 101 was effective for the Company in the fourth quarter of 2000. Because the Company has historically recognized revenue when shipments are delivered, the adoption of SAB 101 had no effect on the results of operations or financial position of the Company.

(5) Earnings Per Share

A reconciliation of the numerator and denominator of basic and diluted earnings per share is shown below. Common stock equivalents represent the dilutive effect of outstanding stock options for all periods presented.

	(in thousands, except per share amounts) Three Months Ended March 31	
	2001	2000
Net income	\$ 9,455	\$ 10,318
Average common shares outstanding	47,072	47,092
Common stock equivalents	591	159
Diluted shares outstanding	47,663	47,251
Basic earnings per share	\$.20	\$.22
Diluted earnings per share	\$.20	\$.22

Options to purchase shares of common stock which were outstanding during the periods indicated above, but were excluded from the computation of diluted earnings per share because the option purchase price was greater than the average market price of the common shares, were:

	Three Months Ended March 31	
	2001	2000
Number of shares under option	7,500	718,501
Range of option purchase prices	\$19.13-\$20.50	\$14.94-\$20.50

(6) Segment Information

The Company has one reportable segment- Truckload transportation services. This segment consists of five operating fleets that have been aggregated since they have similar economic characteristics and meet the

other aggregation criteria of SFAS No. 131. The Medium- to Long-Haul Van fleet transports a variety of consumer, non-durable products and other commodities in truckload quantities over irregular routes using dry van trailers. The Regional Short-Haul fleet provides comparable truckload van service within five geographic areas. The Flatbed and Temperature- Controlled fleets provide truckload services for products with specialized trailers. The Dedicated Services fleet provides truckload services required by a specific company, plant, or distribution center.

The Company generates non-trucking revenues related to freight transportation management, third-party equipment maintenance, and other business activities. None of these operations meet the quantitative threshold reporting requirements of SFAS No. 131. As a result, these operations are grouped in "Other" in the table below. The Company does not prepare separate balance sheets by segments and, as a result, assets are not separately identifiable by segment. The Company has no significant intersegment sales or expense transactions that would result in adjustments necessary to eliminate amounts between the Company's segments.

The following tables summarize the Company's segment information (in thousands of dollars):

	For the Quarter Ended March 31, 2001		
	Truckload Transportation Services	Other	Total
Revenues	\$289,811	\$14,766	\$304,577
Operating Income	15,702	357	16,059

	For the Quarter Ended March 31, 2000		
	Truckload Transportation Services	Other	Total
Revenues	\$272,159	\$19,220	\$291,379
Operating Income (Loss)	18,794	(259)	18,535

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

This report contains forward-looking statements which are based on information currently available to the Company's management. Actual results could differ materially from those anticipated in forward-looking statements as a result of a number of factors, including, but not limited to, those discussed in Item 7, "Management's Discussion and Analysis of Results of Operations and Financial Condition", of the Company's Annual Report on Form 10-K for the year ended December 31, 2000. The Company assumes no obligation to update any forward-looking statement to the extent it becomes aware that it will not be achieved for any reason.

Financial Condition:

During the three months ended March 31, 2001, the Company generated cash flow from operations of \$78.0 million. The increase in operating cash flows from deferred income taxes from first quarter 2000 to first quarter 2001 was due primarily to the implementation of certain tax strategies. The cash flow from operations enabled the Company to make net property additions, primarily revenue equipment, of \$29.6 million, repay \$45.0 million of debt, and pay common stock dividends of \$1.2 million. Based on the Company's strong financial position, management foresees no significant barriers to obtaining sufficient financing, if necessary, to continue with its growth plans.

The Company's debt to equity ratio at March 31, 2001 was 11.0%, compared with 19.6% at December 31, 2000. The Company's debt to total capitalization ratio (total capitalization equals total debt plus total stockholders' equity) was 9.9% at March 31, 2001 compared to 16.4% at December 31, 2000.

Results of Operations:

The following table sets forth the percentage relationship of income and expense items to operating revenues for the periods indicated.

	Percentage of Operating Revenues	
	Three Months Ended March 31	
	2001	2000
Operating revenues	100.0%	100.0%
Operating expenses:		
Salaries, wages and benefits	35.8	35.4
Fuel	11.5	10.7
Supplies and maintenance	8.9	8.7
Taxes and licenses	7.6	7.4
Insurance and claims	3.5	2.4
Depreciation	9.6	9.0
Rent and purchased transportation	16.5	19.5
Communications and utilities	1.2	1.3
Other	0.1	(0.8)
Total operating expenses	94.7	93.6
Operating income	5.3	6.4
Net interest expense and other	0.3	0.7
Income before income taxes	5.0	5.7
Income taxes	1.9	2.2
Net income	3.1%	3.5%

	Operating Statistics	
Average monthly miles per tractor	10,242	10,505
Average revenues per total mile (1)	\$1.189	\$1.172
Average revenues per loaded mile (1)	\$1.331	\$1.302
Average percentage of empty miles	10.67%	9.99%
Average tractors in service	7,547	7,127
Non-trucking revenues (in thousands)	\$14,766	\$19,220
Total tractors (at quarter end)		
Company	6,440	5,925
Owner-operator	1,185	1,250
Total tractors	7,625	7,175
Total trailers (at quarter end)	19,860	18,900

(1) Net of fuel surcharge revenues.

Three Months Ended March 31, 2001 and 2000

Operating revenues increased 4.5% for the three months ended March 31, 2001, compared to the same period of the prior year, due in part to a 5.9% increase in the average number of tractors in service. Revenue per mile, excluding fuel surcharges, increased 1.5%, and revenue per mile, including fuel surcharges, increased 3.1% compared to first quarter 2000. Excluding fuel surcharge revenues, trucking revenues increased 4.8% for the three months ended March 31, 2001, compared to the same period of the prior year. These increases were offset by a 2.5% decrease in miles per truck compared to first quarter 2000 and a \$4.5 million decrease (23% decrease) in revenues from logistics and other non-trucking transportation services due to the Company transferring logistics business to Transplace.com on June 30, 2000. See discussion of Transplace.com on the following pages.

Freight demand during first quarter 2001 was less than first quarter 2000. Over the past several months, the Company has increased its focus on margin improvement and debt reduction rather than on growth. Until market conditions improve, the Company anticipates growing its fleet at a slower rate. However, when market conditions improve, the Company intends to increase its growth rate.

Operating expenses, expressed as a percentage of operating revenues, were 94.7% for the three months ended March 31, 2001, compared to 93.6% for the three months ended March 31, 2000. The decrease in owner-operator miles as a percentage of total miles (17.3% in first quarter 2001 compared to 19.6% in first quarter 2000), contributed to a shift in costs from the rent and purchased transportation expense category to several other expense categories, as described on the following pages. Owner-operators are independent contractors who supply their own tractor and driver, and are responsible for their operating expenses including fuel, supplies and maintenance, and fuel taxes.

Salaries, wages and benefits increased from 35.4% to 35.8% of revenues. This was partially due to an increase in driver costs due to a higher number of student drivers and a higher percentage of Company drivers compared to owner-operators in first quarter 2001 versus first quarter 2000. This was offset by a reduction in non-driver salaries due to a higher ratio of tractors to non-driver employees in first quarter 2001 compared to first quarter 2000. Workers' compensation expense increased due to rising medical costs and higher weekly claim payments. While the market for recruiting and retaining drivers is almost always challenging, market conditions improved during first quarter. A rising unemployment rate and trucking company business failures helped the Company increase its company driver workforce and improve its driver turnover percentage slightly. The Company anticipates that the competition for qualified drivers will continue to be high, and cannot predict whether it will experience shortages in the future. If such a shortage was to occur and increases in driver pay rates became necessary to attract and retain drivers, the Company's results of operations would be negatively impacted to the extent that corresponding freight rate increases were not obtained.

Fuel increased from 10.7% to 11.5% of revenues due mainly to a higher percentage of company drivers compared to owner-operators during the quarter compared to the same quarter of the prior year. Diesel fuel prices were 1.4% higher during first quarter 2001 compared to first quarter 2000, although prices remain near historically high levels. The Company's customer fuel surcharge reimbursement programs recovered most of the increase in fuel cost. After considering the amounts collected from customers through fuel surcharge programs, net of reimbursements to owner-operators, there was no significant impact on first quarter 2001 earnings per share compared to first quarter 2000 earnings per share due to higher fuel costs. Shortages of fuel, increases in fuel prices or rationing of petroleum products can have a materially adverse effect on the operations and profitability of the Company. The Company is unable to predict whether higher fuel price levels will continue or the extent to which fuel

surcharges will be collected from customers. As of March 31, 2001, the Company had no derivative financial instruments to reduce its exposure to fuel price fluctuations.

Insurance and claims increased from 2.4% to 3.5% of revenues due to more severe winter weather conditions in the first quarter of 2001 compared to the same quarter last year. The frequency of property damage and related cargo-damage accidents increased. Depreciation increased from 9.0% to 9.6% of revenues because of the larger percentage of company-owned trucks versus owner-operator trucks.

Rent and purchased transportation decreased from 19.5% to 16.5% of revenues due primarily to transferring most of the Company's logistics business to Transplace.com and the decrease in owner-operator miles as a percentage of total miles. The Company has experienced difficulty in recruiting and retaining owner-operators because of high fuel prices, resulting in a reduction of the number of owner-operator tractors from 1,250 as of March 31, 2000, to 1,185 as of March 31, 2001. The Company reimburses owner-operators for the higher cost of fuel based on fuel surcharge reimbursements collected from customers.

On June 30, 2000, the Company transferred its logistics business unit to Transplace.com. The Company is one of six large truckload transportation companies that contributed their logistics businesses to this commonly owned, Internet-based logistics company. Each of the six founding members of Transplace.com contributed their logistics business, related intangible assets, and \$5 million of cash. The Company transferred logistics business representing about 3% of total revenues for the three months ended March 31, 2000 to Transplace.com. The Company is recording its approximate 15% investment in Transplace.com using the equity method of accounting and is accruing its percentage share of Transplace.com's earnings as an other non-operating item. In first quarter 2001, the Company recorded a loss of approximately \$0.4 million as its percentage share of estimated Transplace.com earnings.

Other operating expenses changed from a credit of (0.8)% to 0.1% of revenues due to a weak market for the sale of used trucks. Record levels of trucks manufactured over the past two years, an increased supply of used trucks caused in part by trucking company business failures, and slower fleet growth by many carriers have all contributed to a decline in the market value of used trucks. During first quarter 2001, the Company traded more of its used trucks, and the excess of the trade price over the net book value of the truck reduced the cost basis of the new truck. In first quarter of 2000, the Company sold most of its used trucks to third parties through its Fleet Truck Sales retail network and realized gains of \$2.8 million. Due to a reduced number of trucks sold to third parties and a lower average gain per truck, in first quarter 2001 the Company realized gains of \$0.1 million. The Company cannot predict whether the current state of the used truck market will continue.

Interest expense decreased from 0.8% to 0.5% of revenues due to a reduction in the Company's borrowings. Average debt outstanding in first quarter 2001 was \$82.5 million versus \$135.0 million in first quarter 2000.

The Company's effective income tax rate (income taxes as a percentage of income before income taxes) was 37.5% and 38.0% for the three-month periods ended March 31, 2001 and 2000, respectively. The effective income tax rate for the 2001 period decreased due to the implementation of certain tax strategies.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

The Company is exposed to market risk from changes in interest rates and commodity prices.

Interest Rate Risk

The Company had \$10 million of variable rate debt at March 31, 2001. The interest rates on the variable rate debt are based on the London Interbank Offered Rate (LIBOR). Assuming this level of borrowings, a hypothetical one-percentage point increase in the LIBOR interest rate would increase the Company's annual interest expense by \$100,000.

Commodity Price Risk

The price and availability of diesel fuel are subject to fluctuations due to changes in the level of global oil production, seasonality, weather, and other market factors. Historically, the Company has been able to recover a majority of fuel price increases from customers in the form of fuel surcharges. As of March 31, 2001, the Company has implemented customer fuel surcharges with most of its revenue base to offset most of the higher fuel cost per gallon. The Company cannot predict the extent to which high fuel price levels will occur in the future or the extent to which fuel surcharges could be collected to offset such increases. As of March 31, 2001, the Company had no derivative financial instruments to reduce its exposure to fuel price fluctuations.

PART II

OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K.

(a) Exhibits

None

(b) Reports on Form 8-K.

(i) A report on Form 8-K, filed January 26, 2001, regarding a news release on January 22, 2001, announcing the Company's operating revenues and earnings for the fourth quarter and year ended December 31, 2000.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

WERNER ENTERPRISES, INC.

Date: May 15, 2001

By: /s/ John J. Steele

John J. Steele
Vice President, Treasurer and
Chief Financial Officer

Date: May 15, 2001

By: /s/ James L. Johnson

James L. Johnson
Vice President, Controller and
Corporate Secretary

End of Filing